The $1 Trillion Wage Deficit

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Executive Summary

We use Bureau of Labor Statistics (BLS) data on the economy since 2007 and Congressional Budget Office (CBO) projections of economic performance through 2012 to estimate the total loss of wages and salaries resulting from the decrease in employment in the current downturn.

Using a methodology that produces a conservative estimate of expected losses, we find that the fall in employment from its 2007 levels will cost U.S. workers just over $1 trillion in lost wages and salaries during the five-year period 2008-2012.

The estimated lost wages and salaries exceed – by about $150 billion – the CBO's estimate of the full ten-year cost of the health-care reform bill that recently passed in the House of Representatives.

From the standpoint of jobs – the economic variable that most concerns Americans – the recession is not even one-third over. Cumulative wage and salary losses so far (2008 and 2009) constitute less than one-third of the total expected missed earnings through 2012.

We have not yet seen the bottom of the labor market. Lost wages and salaries in 2010 will be more than 25 percent higher (after adjusting for inflation) than the losses experienced in 2009.

Lost earnings in 2011 will be higher than they were in 2009; and 2012 will be almost three times as bad as 2008, the first full year of the recession.

For African-American workers, the total five-year cost in lost wages and salaries is $142 billion. For Latino workers, the lost wages and salaries over the same period are $138 billion.

The methodology used here yields a conservative estimate of the total losses for workers. We do not include the cost of lost health insurance or pension contributions, lost earnings resulting from declines in the usual hours of work for those workers who manage to keep their jobs, or any cuts in wages and salaries stemming from cost-cutting pressures brought on by the recession.

Introduction

The strong rise in the U.S. stock market since the spring and the return to positive economic growth in the third quarter of this year have created a consensus among economists that the Great Recession is very likely over. Unfortunately, the end of the official recession will have little visible impact on U.S. labor markets until almost 2012. According to government and private-sector forecasts, absent dramatic policy changes focused on creating jobs, the unemployment rate will be higher in 2010 (10.2 percent by Congressional Budget Office projections) than it has been in 2009 (9.3 percent, as estimated by the CBO), and will be almost as high in 2011 (9.1 percent). Two years after the official start of the recession in December 2007, the labor market has still not even hit bottom.

In this short paper, we use Bureau of Labor Statistics (BLS) data on the economy since 2007 and Congressional Budget Office (CBO) projections of economic performance through 2012 to estimate the total loss of wages and salaries resulting from the decline in employment during the current downturn. Using a methodology that produces a conservative estimate of expected losses, we find that the fall in employment from 2007 levels will cost U.S. workers just over $1 trillion in lost wages and salaries during the five-year period 2008-2012. To put these lost wages and salaries into context, they exceed – by about $150 billion – the CBO's estimates of the full ten-year cost of the health care reform bill that recently passed in the House of Representatives.

According to our estimates, the cumulative wage and salary losses so far (2008 and 2009) constitute less than one-third of the total expected lost earnings through 2012. We also project that lost earnings next year (2010) will be more than 25 percent higher (after adjusting for inflation) than they were this year (2009). Our projections for 2011 and 2012 – which flow directly from CBO analysis that incorporates the effects of the 2009 economic stimulus package – show that wage and salary losses will be higher in 2011 than they were in 2009, and that losses in 2012 will be almost three times as high as the losses experienced in 2008, the first full year of the recession.

Lost Wages and Salaries

Table 1 summarizes our estimates of total lost wages and salaries. For each year from 2008 through 2012, we first estimate the actual or projected decline in total jobs relative to what would have happened if the employment rate had remained at its 2007 level. We then multiplied these implied job losses by the earnings for the typical worker (about $29,000 per year in 2007, including part-time and part-year workers), to produce an estimate of the total lost wages and salaries in each year (last column). (See the Data Appendix for a more complete description of our methodology.)

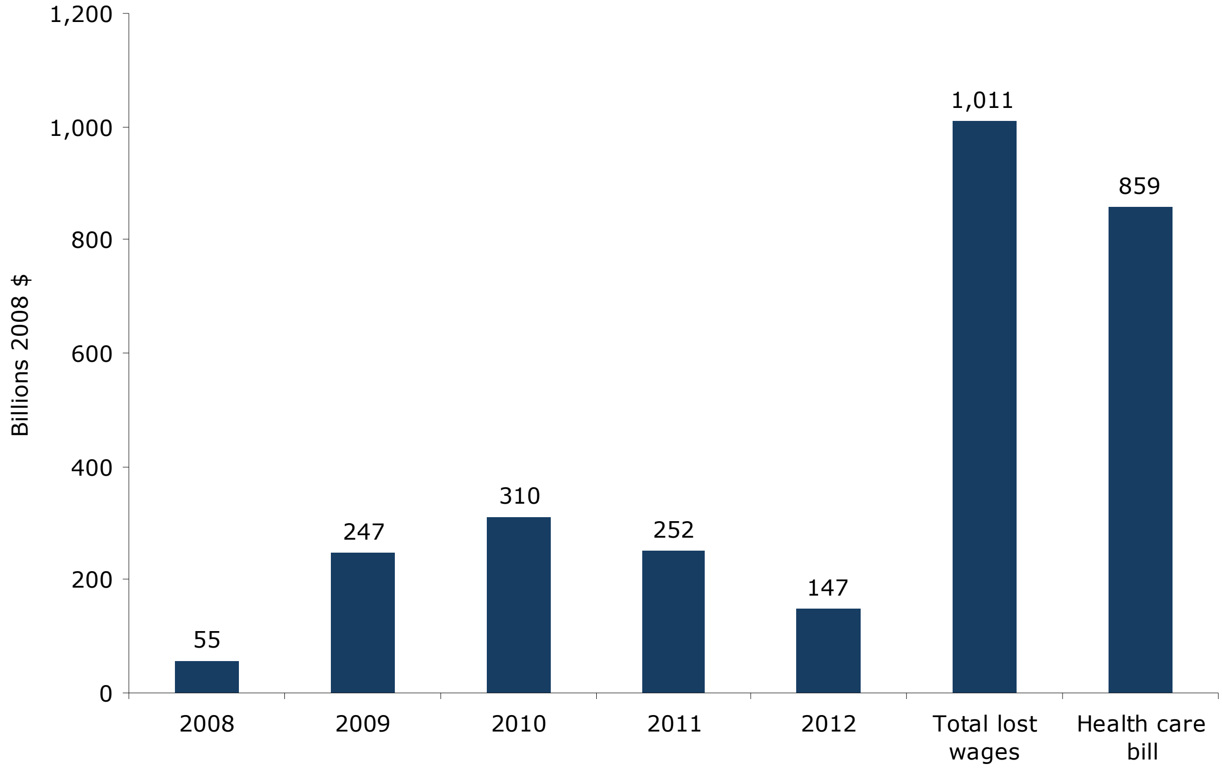
TABLE 1
Cost of the Recession in Lost Wages and Salaries, 2008-2012

	Unemployment rate (percent)	Employment rate (percent)	Job deficit relative to 2007 average employment rate (thousands)	Lost wages (billions 2008$)
All, 16+				
2007	4.6	63.0	--	--
2008	5.8	62.2	-1,894	-55
2009	9.3	59.4	-8,513	-247
2010	10.2	58.5	-10,700	-310
2011	9.1	59.4	-8,679	-252
2012	7.2	60.9	-5,075	-147
Total				**-1,011**
African American, 16+				
2007	8.3	58.4	--	--
2008	10.1	57.3	-305	-8
2009	14.7	53.3	-1,446	-36
2010	15.7	52.0	-1,825	-46
2011	14.0	53.5	-1,402	-35
2012	11.1	56.0	-693	-17
Total				**-142**
Latinos, 16+				
2007	5.6	64.9	--	--
2008	7.6	63.3	-514	-11
2009	12.1	59.8	-1,687	-36
2010	13.1	58.9	-2,002	-43
2011	11.7	60.3	-1,544	-33
2012	9.2	62.8	-728	-15
Total				**-138**

Notes: Authors' analysis of BLS and CBO data. Data for 2009 are estimates; data for 2010, 2011 and 2012 are based on CBO projections. See text for full explanation.

Figure 1 presents some of the most important results of the analysis. First, the worst effects of the recession on the labor market are yet to come. According to our estimates, the labor market will not hit bottom until 2010, when lost wages and salaries will be about 25 percent higher than they were in 2009; 2011 will be worse than 2009; and 2012 will be almost three times as bad as 2008, the first full year of the recession.

FIGURE 1
Cost of Lost Earnings 2008-2012 versus Health Care Reform 2010-2019



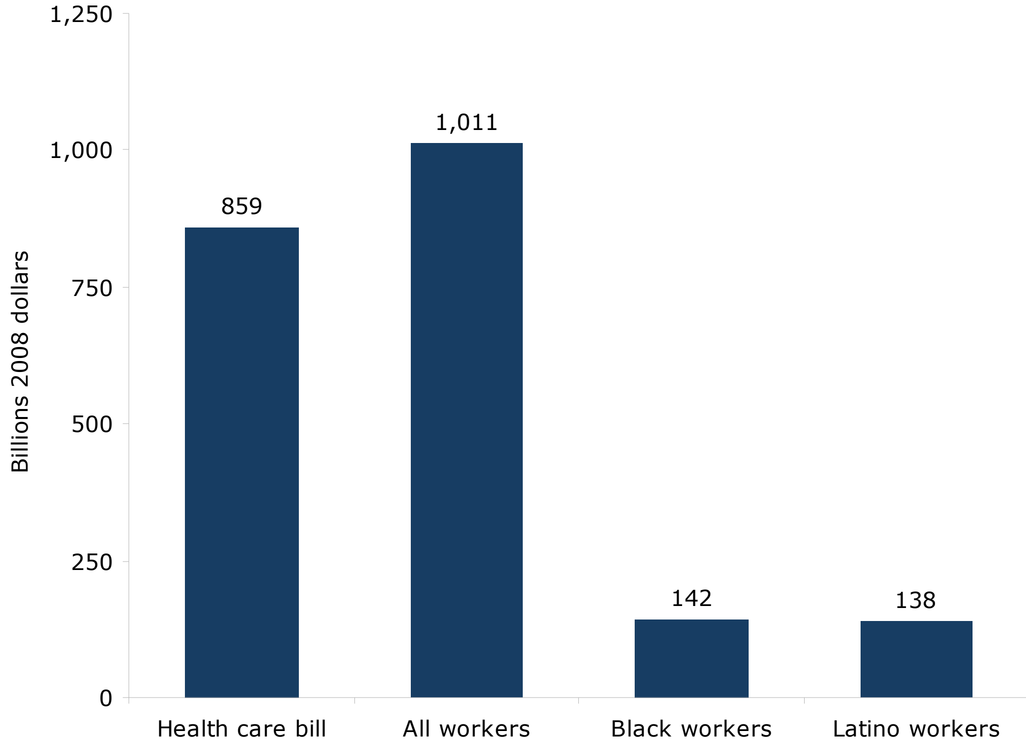
Source: CEPR analysis of BLS and CBO data

Second, we are still less than one-third of the way through the labor-market recession. Total lost wages and salaries through 2009 – $302 billion – are less than one-third of the $1.011 trillion dollars in losses expected through 2012.

Third, the total cost in lost earnings over the five years 2008-2012 is enormous by any measure. At just over $1 trillion, the cumulative losses are over $150 billion higher than CBO's estimates of the ten-year direct costs of the House of Representatives" recent health care reform bill (H.R. 3962). (Moreover, the wage and salary losses are borne entirely by unemployed workers, while the health care costs are spread over the entire population, including the direct beneficiaries of expanded care. And, of course, the CBO also concludes that net of cost savings and increased revenues, the House health care bill would actually reduce the deficit relative to the CBO baseline.)

Figure 2 shows the total five-year costs separately for African American and Latino workers. For black workers, the total five-year cost in lost wages and salaries is $142 billion. For Latino workers, the lost wages and salaries over five years are $138 billion.

FIGURE 2
Total Cost of Lost Earnings in 2008-2012 versus Health Care Reform in 2010-2019



Source: CEPR analysis of BLS and CBO data

Our methodology produces a conservative estimate of the total losses for workers. We do not include the cost of lost health insurance or pension contributions. We do not include lost earnings resulting from declines in the usual hours of work for workers who manage to keep their jobs. We also exclude any cuts in wages and salaries stemming from belt-tightening pressures brought on by the recession.

The key factor driving the size and pattern of the lost wages is the CBO projection of unemployment rates through 2012. The CBO, with the Federal Reserve Board and the consensus of private-sector forecasters, projects high levels of unemployment persisting through 2012, long after the formal economic recovery is under way.

Conclusion

For the vast majority of Americans whose income depends almost entirely on the labor market, the recession is not even one-third over. Simple estimates based on BLS data and CBO projections suggest that U.S. workers are on course to lose over $1 trillion in wages and salaries as a result of the economic crisis. Lost wages and salaries in both 2010 and 2011 will be higher than the losses that workers have already sustained in 2009. Long after the economy has returned to positive growth, the labor market will languish, imposing costs substantially higher than those associated with current health care reform proposals, without any corresponding social benefit.

Data Appendix

In Table 1, the data for the unemployment rate covering 2007 and 2008 are from the BLS (http://data.bls.gov/); for the full year 2009, the data refer to CBO estimates (http://www.cbo.gov/, file EconProj_Aug09.xls); for 2010, 2011, and 2012, data refer to CBO projections from the same source.

The data on employment-to-population rates for 2007 and 2008 are from the BLS; for the full year 2009, we estimate the employment rate using January to October data from the BLS assuming November and December employment rates are identical to those in November; for 2010 through 2012, we use changes in the CBO projections for the unemployment rate to project changes in the employment to population rate. (Based on the pattern followed from January 2007 through October 2008, every one percentage-point increase in the unemployment rate was associated with a 0.8 percentage-point decline in the employment-to-population rate.)

We calculate the job deficit for each month (not shown) by calculating the difference in each month's employment rate and the average employment rate in 2007, and multiplying this difference by the total population age 16 and older. The calculation yields the number of additional jobs the economy would have had if the employment rate had remained at its 2007 level. (We take the civilian population age 16 and older for January 2008 through October 2009 from the BLS; for later months, we assume that this population grows at the same annual rate (0.8 percent) that the CBO uses for the average growth in the labor force.) The job deficit in Table 1 is the average job deficit across the 12 months in each of the five years.

We estimate the total lost wages and salaries by multiplying the monthly job deficit numbers by the estimated monthly wage and salary income in 2008 dollars, obtained from our own estimates from the Current Population Survey data covering the calendar year 2007 (the March 2008 CPS). (We divide the annual 2007 income from wages and salaries by 12.) Our monthly wage and salary estimate includes part-time workers and includes the effects of workers who only work part of the year. We sum the monthly losses within each year to produce the corresponding annual estimates of total lost wages and salaries.

We follow an almost identical procedure to calculate the costs for African American and Latino workers. The only substantive difference is that, in the absence of CBO projections for unemployment rates for African-American and Latino workers, we estimate these unemployment rates by maintaining the 2009 ratio of each group's unemployment to the national unemployment rate. Based on the pattern for January 2008 through October 2009, we also assume that every one percentage-point increase in the unemployment rate for African Americans is associated with an 0.85 percentage point decline in the employment-to-population rate; and a 1.00 percentage-point decline for Latino workers.